

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

## Legislative Actuarial Note

**BILL NUMBER:** Senate Bill 376 (Third Edition)  
**SHORT TITLE:** Montgomery Co. Employees in State Health Plan.  
**SPONSOR(S):**

**SYSTEM OR PROGRAM AFFECTED:** State Health Plan for Teachers and State Employees (Plan).

**FUNDS AFFECTED:** State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

**BILL SUMMARY:** The Third Edition allows Montgomery County to enroll its employees and dependents in the Plan under the following conditions:

- The County must enter into a memorandum of understanding with the Plan at least 60 days prior to joining.
- The County and enrolling employees must meet the federal requirements to participate in a governmental plan.
- The County shall determine the eligibility of its employees and their dependents and what portion of premiums the employees will pay.
- The total premiums paid to the Plan will be the same as the fully contributory premiums for State employees.
- The Plan may charge 1.5% interest per month for late payment of premiums.

**EFFECTIVE DATE:** The bill is effective when it becomes law.

### ESTIMATED IMPACT ON STATE:

The Segal Company estimates the following net financial impact on the Plan due to adding Montgomery County:

Fiscal Year:	FY 2014-15	FY 2015-16	FY 2016-17
Net Financial Impact:	\$443,000	\$631,000	\$675,000

The Segal Company based its estimates on Montgomery County's existing premiums and plan design and a 150% assumption for adverse selection, i.e. that local governments will typically seek to join the Plan when their costs are anticipated to increase.

Hartman & Associates estimates that the net financial impact on the Plan due to adding Montgomery County will range from a slight gain to a net cost of \$195,000 per year. Hartman & Associates noted that current premiums indicate a high cost group, but that the demographic mix of the group is slightly favorable compared to the Plan.

Both actuaries based their estimates on an assumption that the 13 retirees currently covered by Montgomery County would be covered under the Plan. The bill does not allow retirees to be covered, so these estimates

overstate the true cost. However, the overstatement is likely to be fairly small since the 13 retirees are a small portion of the 234 total participants.

Other Comments on Impact

The additional cost impact of the bill would be expected to impact total premium growth by less than three hundredths of a percent (0.03%). Because the bill does not provide coverage to retirees of Montgomery County, it does not impact the State’s liability for Other Post-Employment Benefits (OPEB).

**ASSUMPTIONS AND METHODOLOGY:** The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

Data Submitted by Montgomery County: The Segal Company and Hartman & Associates based their respective analyses in part on a Distribution of Participants schedule submitted by the County. The schedule below reflects the age and sex demographic data for employees and dependents of the County. Complete claims experience data is typically not available for an employer of this size. However, the County did note that the total premiums for its current coverage range from \$510 per month for employee-only coverage to \$995 for employee/children coverage and provided details on the benefits in its current program, which include:

- Co-pays of \$25 for primary care providers (preventive care is free)
- In-network deductibles of \$2,000 per person
- 40% coinsurance for specialist visits and most in-network inpatient and outpatient services up to a maximum of \$6,000 per person
- Prescription drug co-pays for a 30-day supply of \$10 for generics. Participants pay the full cost of brand drugs.

Distribution of Current Health Plan Participants												
Ages	Active Employees			Dependents of Active Employees			Retired Employees			Dependents of Retired Employees		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
0-4			0	2	1	3			0			0
5-9			0	2	1	3			0			0
10-14			0	2	1	3			0			0
15-19			0	2	1	3			0			0
20-24	7	3	10		5	5			0			0
25-29	7	10	17			0			0			0
30-34	10	16	26			0			0			0
35-39	8	14	22			0			0			0
40-44	9	21	30			0			0			0
45-49	8	19	27			0			0			0
50-54	9	17	26			0	2		2			0
55-59	7	15	22			0	2	1	3			0
60-64	2	18	20			0		8	8			0
65-69		3	3			0			0			0
70-74		1	1			0			0			0
75-79			0			0			0			0
>79			0			0			0			0
Unknown			0			0			0			0
<b>TOTAL</b>	<b>67</b>	<b>137</b>	<b>204</b>	<b>8</b>	<b>9</b>	<b>17</b>	<b>4</b>	<b>9</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Summary Information and Data about the Plan**

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments and charter schools may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement, with the exception of many Medicare-eligible retirees who are in fully-insured Medicare Advantage plans. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who participate in a plan with a non-zero premium or who elect dependent coverage. Starting in 2014, benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes three alternative benefit levels listed below:

- 1) The "Traditional" 70/30 plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums without needing to complete wellness activities,
- 2) The "Enhanced" 80/20 plan that offers lower out-of-pocket requirements with higher employee and retiree premiums, which can be lowered by completing wellness activities, and
- 3) The Consumer-Directed Health Plan (CDHP) that applies deductibles and co-insurance to all services and offers lower employee and retiree premiums if one completes wellness activities

Medicare-eligible retirees are offered three alternative plans:

- 1) The "Traditional" 70/30 plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plans (MA-PDPs) from a choice of two carriers, Humana or United Healthcare, that are actuarially equivalent to the "Enhanced" 80/20 Plan and apply in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDPs, identical to the "Base" MA-PDPs, except with lower co-pays and higher retiree premiums

The following tables provide a summary of the most common monthly premium rates for the Plan in 2014:

**Active Employees and Non-Medicare Retirees**

Wellness Plans

	Employer Share	Employee/Retiree Share	
		Complete All Wellness Activities *	Complete No Wellness Activities
Enhanced 80/20 Plan	\$448.11	\$13.56	\$63.56
Consumer-Directed Health Plan	\$448.11	\$0.00	\$40.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$448.11	\$0.00

\* Members receive credits for each activity. We have shown all or none for simplicity.

**Medicare Retirees**

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$348.25	\$0.00
MA-PDP Enhanced Plan	\$348.25	\$33.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$348.25	\$0.00

**Dependents**

	All Dependents are Non-Medicare			One or More Medicare Dependents		
	Enhanced 80/20	CDHP	Traditional 70/30	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$272.80	\$184.60	\$205.12	\$114.50	\$147.50	\$145.94
Employee/Retiree + Spouse	\$628.54	\$475.68	\$528.52	\$114.50	\$147.50	\$383.72
Employee/Retiree + Family	\$666.38	\$506.64	\$562.94	\$229.00	\$295.00	\$418.10

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2013-14, employers contribute 5.40% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$834 million.

**Financial Condition**

**Projected Results for CY 2014 and CY 2015** – The following summarizes projected financial results for 2014 and 2015, based on financial experience through December, 2013 and enrollments for January, 2014. The projection assumes an 8.5% annual claims growth trend, benefit provisions and member-paid premiums as currently adopted by the Board, and assumed premium increases in 2015 based on the maximum annual employer premium for FY 2014-15.

	(\$ millions)	
	Projected CY 2014	Projected CY 2015
Beginning Cash Balance	\$838.4	\$819.9
Receipts:		
Net Premium Collections	\$2,910.7	\$2,996.6

Medicare Part D / EGWP Subsidies	\$36.0	\$38.0
Investment Earnings	\$3.3	\$3.1
Total	\$2,950.0	\$3,037.8
Disbursements:		
Net Medical Claim Payment Expenses	\$1,982.2	\$2,124.5
Net Pharmacy Claim Payment Expenses	\$640.2	\$635.3
Medicare Advantage Premiums	\$157.8	\$196.9
Administration and Claims-Processing Expenses	\$188.4	\$214.4
Total	\$2,968.6	\$3,171.2
Net Operating Income (Loss)	(\$18.6)	(\$133.4)

Of the premiums paid in CY 2014, an estimated \$2.0 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

### **Other Information**

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, fraud detection, and other authorized actions by the State Treasurer, Executive Administrator, and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 8.5% annually according to the Plan's consulting actuary. The active population is projected to decline by 1% per year and the retired population is projected to increase by 1% per year.

**Enrollment as of January 1, 2014**

<b>I. No. of Participants</b>	<b>Traditional 70/30</b>	<b>Enhanced 80/20</b>	<b>Consumer Directed</b>	<b>Medicare Advantage</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>						
Employees	145,741	160,388	8,432	-	314,561	46.5%
Dependents	81,434	69,832	8,581	-	159,847	23.6%
Sub-total	227,175	230,220	17,013	-	474,408	70.1%
<u>Retired</u>						
Employees	53,590	30,249	791	96,532	181,162	26.8%
Dependents	6,329	3,884	299	6,851	17,363	2.6%
Sub-total	59,919	34,133	1,090	103,383	198,525	29.3%
<u>Other</u>						
Employees	1,326	1,448	35	-	2,809	0.4%
Dependents	830	510	35	-	1,375	0.2%
Sub-total	2,156	1,958	70	-	4,184	0.6%
<u>Total</u>						
Employees	200,657	192,085	9,258	96,532	498,532	73.6%
Dependents	88,593	74,226	8,915	6,851	178,585	26.4%
<b>Grand Total</b>	<b>289,250</b>	<b>266,311</b>	<b>18,173</b>	<b>103,383</b>	<b>677,117</b>	<b>100%</b>
<b>Percent of Total</b>	<b>42.7%</b>	<b>39.3%</b>	<b>2.7%</b>	<b>15.3%</b>	<b>100.0%</b>	
<b>II. Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	154,239	153,049	5,041	96,532	408,861	
Employee Child(ren)	27,169	24,228	2,077	195	53,669	
Employee Spouse	6,685	5,630	567	6,656	19,538	
Employee Family	11,079	8,407	1,499			
Other (e.g. Split Contract)	1,485	771	74		2,330	
<b>Total</b>	<b>200,657</b>	<b>192,085</b>	<b>9,258</b>	<b>103,383</b>	<b>484,398</b>	
<b>Percent Enrollment by Contract</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Employee Only	76.9%	79.7%	54.5%	93.4%	84.4%	
Employee Child(ren)	13.5%	12.6%	22.4%	0.2%	11.1%	
Employee Spouse	3.3%	2.9%	6.1%	6.4%	4.0%	
Employee Family	5.5%	4.4%	16.2%	0.0%	0.0%	
Other (e.g. Split Contract)	0.7%	0.4%	0.8%	0.0%	0.5%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	
<b>III. Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	170,705	174,259	10,133	67,923	423,020	
Male	118,545	92,052	8,040	35,460	254,097	
<b>Total</b>	<b>289,250</b>	<b>266,311</b>	<b>18,173</b>	<b>103,383</b>	<b>677,117</b>	
<b>Percent Enrollment by Sex</b>						
	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>	
Female	59.0%	65.4%	55.8%	65.7%	62.5%	
Male	41.0%	34.6%	44.2%	34.3%	37.5%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

<b>IV. Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
24 & Under	76,689	61,793	6,901	14	145,397
25 to 44	80,007	70,332	5,155	344	155,838
45 to 54	49,210	53,187	3,236	1,328	106,961
55 to 64	50,478	74,807	2,712	1,821	129,818
65 & Over	32,866	6,192	169	99,876	139,103
<b>Total</b>	<b>289,250</b>	<b>266,311</b>	<b>18,173</b>	<b>103,383</b>	<b>677,117</b>

  

<b>Percent Enrollment by Age</b>	<b>Traditional</b>	<b>Enhanced</b>	<b>CDHP</b>	<b>MA</b>	<b>Total</b>
24 & Under	26.5%	23.2%	38.0%	0.0%	21.5%
25 to 44	27.7%	26.4%	28.4%	0.3%	23.0%
45 to 54	17.0%	20.0%	17.8%	1.3%	15.8%
55 to 64	17.5%	28.1%	14.9%	1.8%	19.2%
65 & Over	11.4%	2.3%	0.9%	96.6%	20.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

  

<b>V. Retiree Enrollment by Category</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	54,826	9,292	64,118
Medicare Eligible in Traditional 70/30	29,803	1,220	31,023
Medicare Eligible in Base Medicare Advantage Plans	62,843	2,633	65,476
Medicare Eligible in Enhanced Medicare Advantage Plans	33,689	4,218	37,907
<b>Total</b>	<b>181,161</b>	<b>17,363</b>	<b>198,524</b>

  

<b>Percent Enrollment by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	30.3%	53.5%	32.3%
Medicare Eligible in Traditional 70/30	16.5%	7.0%	15.6%
Medicare Eligible in Base Medicare Advantage Plans	34.7%	15.2%	33.0%
Medicare Eligible in Enhanced Medicare Advantage Plans	18.6%	24.3%	19.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

  

<b>VI. Enrollment By Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	70,922	32,938	103,860
UNC System	51,237	31,643	82,880
Local Public Schools	173,477	85,054	258,531
Charter Schools	3,056	1,766	4,822
Local Community Colleges	15,869	8,446	24,315
Other			
Local Governments	1,887	965	2,852
COBRA/Reduction in Force	917	405	1,322
Nat. Guard, Fire & Rescue	6	4	10
Sub-total	317,371	161,221	478,592
Retirement System	181,162	17,363	198,525
<b>Total</b>	<b>498,533</b>	<b>178,584</b>	<b>677,117</b>

  

<b>Percent Enrollment by Major Employer Groups</b>	<b>Employees</b>	<b>Dependents</b>	<b>Total</b>
State Agencies	14.2%	18.4%	15.3%
UNC System	10.3%	17.7%	12.2%
Local Public Schools	34.8%	47.6%	38.2%
Charter Schools	0.6%	1.0%	0.7%
Local Community Colleges	3.2%	4.7%	3.6%
Other			
Local Governments	0.4%	0.5%	0.4%
COBRA/Reduction in Force	0.2%	0.2%	0.2%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	63.7%	90.3%	70.7%
Retirement System	36.3%	9.7%	29.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**SOURCES OF DATA:**

The Segal Company; North Carolina State Health Plan; Financial Projections – Dec 2013; March 20, 2014. Filename “NCSHP Q2 Financial Update - Baseline Modified Jan Enrollment Estiamte Adj Reserve.pdf”

-Actuarial Note, Hartman & Associates, “Proposed Committee Substitute to Senate Bill 105 to Authorize Montgomery County to Enroll Its Employees and Dependents in the State Health Plan”, July 14, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, “Proposed Conference Committee Substitute S105-CCSME-4 [v.2] Add Certain Local Gov’ts to State Health Plan”, July 14, 2014, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

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**DATE:** July 29, 2014



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